Burand's Insurance Agency Adviser

Resources and Information for the P&C Insurance Industry

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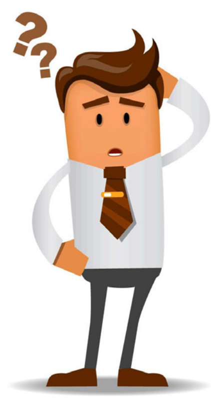

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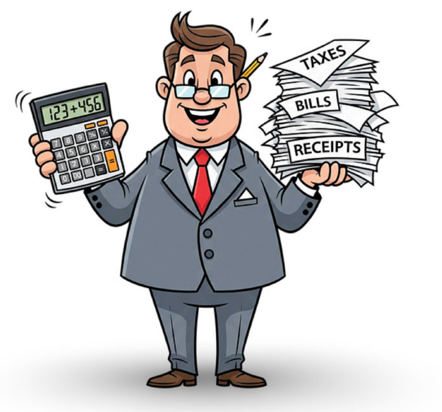

Accounting Rules and Financial Engineering

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Agency A hires and develops a producer. 100% of the expenses are charged against revenue. This reduces earnings and earnings per share.

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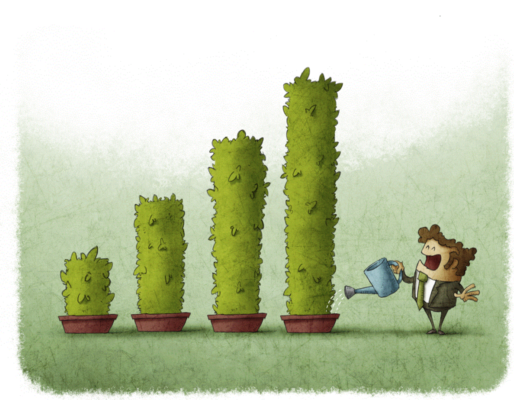
Accelerate Your Profitable Revenue Growth

Many people are unaware of the possibilities for improving their businesses.



As the industry's trusted resource for real-world strategies and solutions, we use our extensive research and experience to help our clients uncover profitable growth opportunities.

Here are just a few of our services that positively impact growth:

Carrier Stability Analysis: Solid carrier relationships provide the foundation for growth. This analysis provides agents and brokers with key insights into their carriers to help you proactively maximize your profitability.

Agency Operations Review: Our review provides a comprehensive, "bird's-eye" view of the agency and its potential. We use our in-depth agency knowledge, proprietary analytics, and broad industry experience to uncover great opportunities to fine-tune and improve your operation.

Burand Insurance Education: Our holistic approach to agency education provides agencies with the tools their employees need to protect their clients' needs, increase sales, and reduce E&O exposures.

E&O Procedures Review: As an approved E&O auditor for Westport and Utica, Chris Burand conducts a comprehensive review of an agency's procedures from an E&O perspective and provides recommendations for minimizing E&O exposures while better serving the needs of the agency's customers. Strong procedures are essential to support sustainable, higher profit growth.

If you are an insurance professional seeking opportunities to grow your business, contact us to learn how to leverage our expertise to fuel your growth.

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Knowledge is Declining and AI is Not the Answer

I was working with an agent regarding coverage analysis. They advised me that my interpretation was wrong because they "asked AI and it gave a different answer." I asked them if their AI tool interpreted a generic form, ABC company's form, or the actual form in question. For some reason or another, it did not dawn on the agent that the only form that mattered was the one in question.

Similarly, I read a case a few weeks ago where an appellate court threw out an insurance company's claim denial because it used a generic form to defend itself rather than its own form.

I was teaching a class a few weeks ago, and a producer got upset upon learning about a case law that has been case law for at least 50 years. I was left wondering how in the world this smart, experienced, and supposedly “educated” producer did not know something so basic.

The insurance industry is incredibly technical in law, language, and, in some ways, finance. How can knowledge levels be so poor? Producers know less today than they did 30 years ago. And the idea that anything can be looked up is fueling ignorance. Beyond laziness, why are incompetence and ignorance attractive?

First, incompetence is cheaper. I was reading a story about how a large carrier had retooled their claims department with adjusters who were “good enough.” I don’t know how to define “good enough,” but I know it is cheaper than hiring excellent adjusters.

Second, some carriers and agencies have recognized that humans may trust someone they know is probably incompetent and even stupid more than they would trust someone who is very smart and knowledgeable. When an uncovered claim happens, does it matter to the injured party if it was caused by incompetence or malfeasance? No. Maybe five years later in litigation, but not much even then in the real world.

But it does matter at the point of purchase. If a buyer trusts an incompetent person not to purposely mislead them, that is psychologically safer than trusting someone smart enough to mislead them. This is the basis of so much insurance advertising that employs ludicrous characters and messages that demean the real value of what insurance does when provided by competent people.

And some of these not-so-competent people generate an amazing level of trust. I remember a producer with a movie-star grin. He should have been in toothpaste commercials. His sales were great, and every policy he wrote was wrong. The agency had to cut his commission to pay for someone to clean up all his messes. And yet customers loved him and that smile!

If it is cheaper to employ ignorance, to not pay for training/education, and ignorance conveys trust, why not downplay competence? That is a valid question. The answer is that the situation will continue to get much worse unless carriers recognize that knowledgeable insurance people do generate more value and/or regulators recognize the existing customer standard of care, where the insured must read and understand their policies, is one of the most ludicrous legal standards in the entire code.

Until then, assuming you care and believe knowledge has value, what is the solution? Create a boutique organization that goes far beyond placing insurance. Placing insurance is designed for incompetence. Professionals cannot beat ignorant people at that game. Give it up.

The new business model must put a price on quality professional advice. The advice can be as simple as actually identifying clients' exposures to their coverage solutions or as complex as ERM/TCOR or alternative market solutions. My clients who take this path have more fun and make more money. They have less stress, and they experience fewer aggravations.

Let me know if you want to embark on a more fun, more financially rewarding career. Don't call if you want to keep trying to win against ignorance.

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Accounting Rules and Financial Engineering

Consider two agencies:

Agency A hires and develops a producer. 100% of the expenses are charged against revenue. This reduces earnings and earnings per share.

Agency B buys an agency in a straightforward, normal asset acquisition. Other than legal costs and a few other minor expenses, only 1/15th of the cost goes against earnings and earnings per share.

For comparison, a producer generates $500,000 in commissions after five years. Producer compensation, training, and development cost an easy $500,000. First-year profits are therefore negative. Second-year profits are likely negative. The third year might break even. Hopefully, in the fourth and fifth years, profit is realized.

But if $500,000 in commissions are purchased for $1.0 million, and the profit margin is 20%, then the book is profitable from day one at $100,000 less $66,667 in amortization. If you are attracting investors, which approach generates the most earnings, is Agency A or Agency B smarter?

If the purchase price exceeds 3 times revenues, Agency A is doing better because annual amortization exceeds the cost of this particular producer. (And I realize I'm only considering five years, and I'm doing that for specific reasons I'll address later.)

So how does it work when brokers and PE firms pay such high prices? They are using what is called "In Excess of Fair Value." When they do that, they simply do not amortize some portion of the purchase price. Think about this relative to earnings. If you buy an agency and never amortize the purchase, all the revenue is free! There is no cost shown on the income statement associated with generating the revenue.

The amount typically not amortized by publicly traded brokers over the last five years has ranged between 35% and 70%, depending on the broker and the year. This is a lot of "free" revenue. In fact, for one publicly traded broker, using 2024 data, it increased earnings by 3.5% for the division doing the most acquisitions. That is a material increase in earnings.

A partial offset is that the more “free” revenue, the higher one’s profits, which is what these firms want to show investors and shareholders. However, that also means more taxes, which means less ability to pay dividends. The way around this is to reorganize in low-tax countries, which is what two of the publicly traded brokers have done. And because of some interesting tax rules, certain PE investors may not pay any meaningful taxes on the profits generated by acquisitions.

This does not mean cash flow is stronger because sellers must be paid something. Most deals now require sellers to take a material portion of their purchase price in the buyer’s stock. That stock is interesting because some buyers make sellers buy their stock completely blind. In other words, they refuse to share any financial data, no audited statements, nothing. That should be illegal.

Much of the price is still paid in cash, so cash flow suffers unless some combination of higher cash profits or capital raises occur. Some buyers have borrowed immensely while others have raised equity instead, but their capital growth must exceed capital outlays, and without financial engineering or severe staffing cuts, paying high multiples makes it nearly impossible to stay ahead if new capital inflows beyond operating cash flow cease.

Accounting rules prevent this kind of financial engineering from appearing on only one side of the financials. Double entry is required. A book entry is typically made as a deferred tax asset or a deferred tax liability. These are balance sheet entries that do not affect earnings or earnings per share.

Now things get a little more interesting. When a buyer does not amortize their acquisitions, they must complete impairment reviews. In my opinion, buyers conduct cursory impairment reviews, and the accounting board needs to tighten this rule significantly. However, we have a situation in this industry where "cursory" should not be so cursory, for two reasons.

The first reason is how a few large firms are so successfully poaching employees and clients. I am going to use Howden here because quite a bit of published data exists. Brown and Brown reported on a January 27, 2026 analyst call that they had lost $23 million and 275 employees to Howden. Marsh McLennan has sued Howden for poaching 140 employees all on the same day. Marsh averages around $220,000 revenue per employee. My understanding is these particular employees were better than average, but I have no proof, so using $220,000, that is about $31 million in revenue. Multiply $31 million by Marsh’s stock price to revenue as of 12-31-25, which was 3.5 times revenue, and the value of those poached employees was approximately $108 million. These are just two examples of many.

If that book had been purchased for In Excess of Fair Value, the portion that was not amortized must be recorded as impaired. That impairment goes against earnings.

Because it seems as though many of the poached employees had come with deals, I'm just guessing here that many buyout firms need to take impairments. Those impairments should also affect their valuations. If a firm loses $30 million in revenue, its value should be affected. (Interestingly, in early August 2026, a medium-sized publicly traded carrier announced a $460 million impairment but justified it as a paper loss--that's nearly a half billion dollars!)

But now we have the second development. The publicly traded brokers' stock prices sank by about 10% on February 10, 2026, amid fears that a new AI-driven agency would decrease their revenue and profits. If a purchase was made on a $10 million book for three times, or $30 million, and even if only half was not amortized (it would likely be more than half), then 10% of $15 million, or $1.5 million, would be the impairment. The brokers alone pay in the billions annually. Even on $10 billion in purchased revenue, at 50%, the impairment is $500 million.

I have no doubt there will be arguments that I've oversimplified the situation, but financial engineering usually involves overcomplicating it. I think I've just brought everything down to basics.

This reality creates real problems that financial engineering covers. First, earnings do not correlate to paying for producers, and producers generate actual growth. Carriers excessively over-represented by such distributors should probably be looking for new sources of growth, as these distributors cannot afford to develop producers. Second, competitors should target accounts rather than people because accounts are vulnerable. And if you take people, take staff, not generally the producers. Take good staff and good producers will follow.

Third, carriers should focus their efforts and their monies on agencies who prove successful in actual producer development. Otherwise, kiss true organic growth goodbye.

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Chris Burand is president and owner of Burand & Associates, LLC, a management consulting firm that has been specializing in the property/casualty insurance industry since 1992. Burand is recognized as a leading consultant for agency valuations and helping agents increase profits and reduce the cost of sales. His services include: agency valuations/due diligence, producer compensation plans, expert witness services, E&O carrier approved E&O procedure reviews, and agency operation enhancement reviews. He also provides the acclaimed Contingency Contract Analysis® Service and has the largest database and knowledge of contingency contracts in the insurance industry.

Burand has more than 35 years' experience in the insurance industry. He is a featured speaker across the continent at more than 300 conventions and educational programs. He has written for numerous industry publications including the Insurance Journal,

American Agent & Broker, and National Underwriter. He also publishes Burand's Insurance Agency Adviser for independent insurance agents.

Burand is a member of NACVA, a department head for the Independent Insurance Agents and Brokers of America's Virtual University, an instructor for Insurance Journal's Academy of Insurance, and a volunteer counselor for the Small Business Administration's SCORE program. Chris Burand is also a Certified Business Appraiser and certified E&O Auditor.
